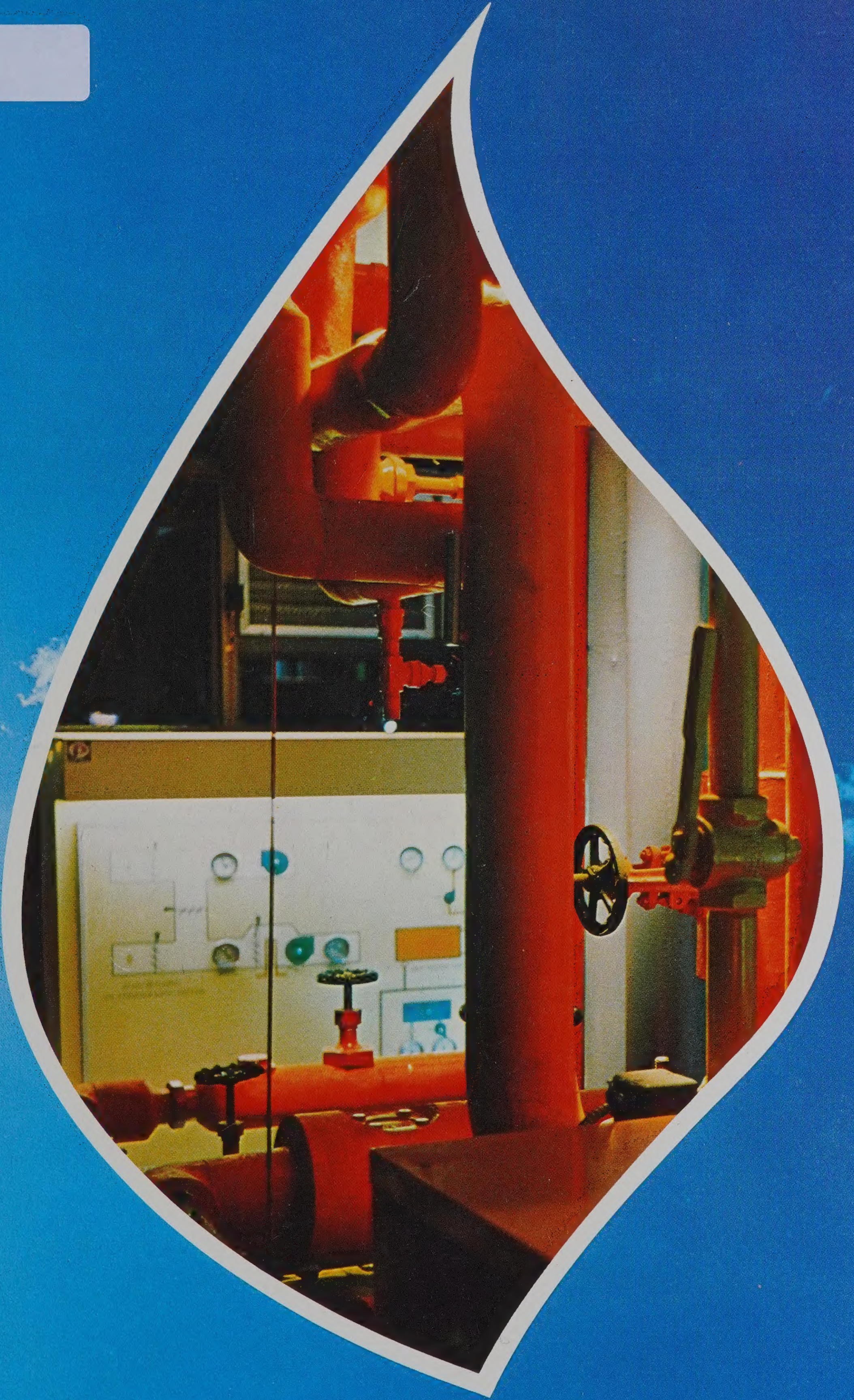


INLAND NATURAL GAS CO. LTD.
1972 ANNUAL REPORT

DIRECTORS

Ronald L. Cliff	President, British Columbia Transformer Co. Ltd.
Roderick M. Hungerford	President, Flex-Lox Industries Ltd.
Cyrus H. McLean	Retired, former Chairman, B.C. Telephone Company
John A. McMahon	Chairman of the Board and President, Inland Natural Gas Co. Ltd.
Donald R. MacPhail	Vice-President and Secretary, Inland Natural Gas Co. Ltd.
Horace B. Simpson	Vice-President, Okanagan Holdings Ltd.
Richard B. Stokes	Vice-President, Finance, Inland Natural Gas Co. Ltd.
Norman R. Whittall	Industrialist

All directors reside in British Columbia

OFFICERS

John A. McMahon	Chairman of the Board and President
Donald F. Blane	Vice-President, Sales and Service
Roderick M. Hungerford	Vice-President
Robert E. Kadlec	Vice-President, Engineering
Clifford I. Kleven	Treasurer and Controller
Donald R. MacPhail	Vice-President and Secretary
Richard B. Stokes	Vice-President, Finance

HEAD OFFICE

1075 West Georgia Street, Vancouver 5, B.C.

REGISTRAR

Canada Permanent Trust Company, Vancouver, B.C.

TRANSFER AGENT

Canada Permanent Trust Company,
Vancouver – Calgary – Toronto – Montreal

AUDITORS

Riddell, Stead & Co.

WHOLLY-OWNED SUBSIDIARIES

Peace River Transmission Company Limited
Grande Prairie Transmission Co. Ltd.
Inland Development Co. Ltd.
St. John Gas & Oil Co. Ltd. (N.P.L.)
Inland Transmission Co. Ltd.
Inland Development (1957) Co. Ltd.

ANNUAL MEETING — 3:00 P.M. P.D.T. OCTOBER 26, 1972. VANCOUVER HOTEL, VANCOUVER, B.C.

HIGHLIGHTS

FINANCIAL	1972	*1971*
Sale of Gas	**$19,141,403**	$16,264,548
Total Revenue	**$19,795,924**	$16,758,268
Net Income	**$ 3,765,901**	$ 2,645,957
Common Shares Outstanding		
weighted average	**2,822,122**	2,578,100
year end	**2,822,122**	2,822,122
Earnings per Common Share		
weighted average	**$ 1.19**	87c
Dividends per Common Share	**63c**	55c
Dividends per Preference Share	**$ 1.00**	$ 1.00
Cash Flow from Operations	**$ 5,093,349**	$ 3,926,132
Total Assets	**$66,234,144**	$56,765,853

OPERATING		
Total Gas Sales (MMcf)	**24,840**	20,919
Number of Customers	**46,992**	42,394

Construction on Inland's 102 Mile 12" Pipeline from Kingsvale to Oliver completed in the year under review.

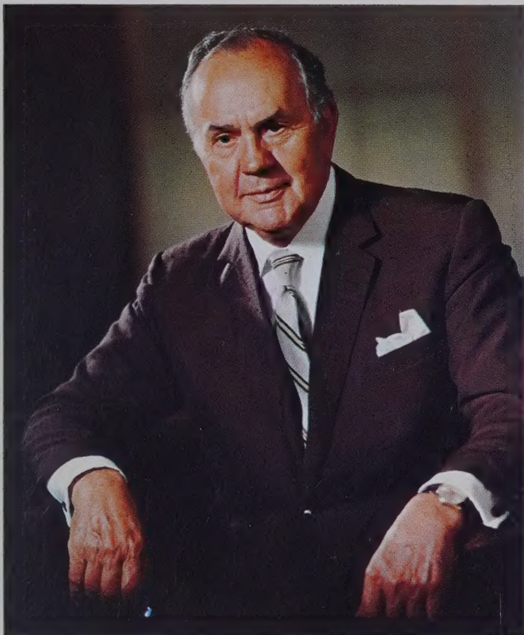
INLAND NATURAL GAS CO. LTD.
20th ANNUAL REPORT

CONTENTS

COVERS:

Front Cover: Inset against a background of clear sky is a section of the all-gas, heating-cooling climate control centre at the Company's new Kamloops office.
Back Cover: A secluded bay on Okanagan Lake.

Both covers and most of the pictorial content emphasize the important contribution that virtually pollution-free natural gas is making in the protection of the beautiful environment that exists throughout the area of the province which Inland serves. The fact that the Interior of British Columbia has so much to offer in quality of life and recreational facilities is stimulating commercial, industrial and residential expansion. The demand for clean natural gas is expected to parallel this growth.



TO OUR SHAREHOLDERS

The addition of approximately 4,600 new customers, together with the longest period of cold weather in the past decade has resulted in a record year for your Company. The Company achieved gross revenues of $19,795,924 for the year ended June 30, 1972, compared to $16,758,268 in the prior year. Net earnings per common share were $1.19, a substantial increase over the $0.87 reported last year.

The increasing awareness of natural gas as a clean-burning fuel is resulting in a number of companies converting their equipment to gas. Approximately 95% of all new residential construction is using gas for space heating and other requirements, and a large majority of commercial and industrial operations are utilizing clean, economic natural gas.

A construction lockout in the Spring of this year delayed completion of two major pulp mills in your Company's service area. B.C. Forest Products Ltd. at Mackenzie and Cariboo Pulp & Paper Company at Quesnel now expect to be on stream in the latter part of 1972. A major expansion of Weyerhaeuser Canada Ltd. at Kamloops is nearly completed, and it is anticipated that their pulp mill will be in full production during the Fall of 1972.

Your Company has nominated 120 MMcf of natural gas per day to accommodate our customers' maximum day requirements for the coming winter. This represents an increase of 33% over the previous year's nomination. Our surveys indicate that the number of new customers we expect to serve during fiscal year 1972-73 will be in excess of those added during the year under review, and our increased gas supply will take care of these new customers as well as provide for a substantial increase in industrial sales.

During the year under review, your Company completed construction of 102 miles of 12″ transmission line from Kingsvale to Oliver. This project improves security of service to the Okanagan and Kootenay areas, and together with compression which will be added in the Fall of 1972, will provide the additional facilities required to transport the increased volume of gas to our customers.

We are pleased to report that Mr. Horace B. Simpson was elected to your Board of Directors in October, 1971. Mr. Simpson is a native of Kelowna and has a wide interest in community affairs. He is a member of the Board of Directors of the B.C. Hospitals Association and Chairman of the Board of Trustees of the Kelowna General Hospital. Mr. Simpson was President of S. M. Simpson Ltd., one of the major lumber operations in the interior of British Columbia, until the Company was sold to Crown Zellerbach Canada Ltd. Mr. Simpson is the Vice-President of Okanagan Holdings Ltd. and a Director of the Okanagan Telephone Company.

The Board of Directors is pleased to advise you that the quarterly dividend was increased from 15c to 16½c per common share at their meeting on January 19th, 1972.

Yours sincerely,

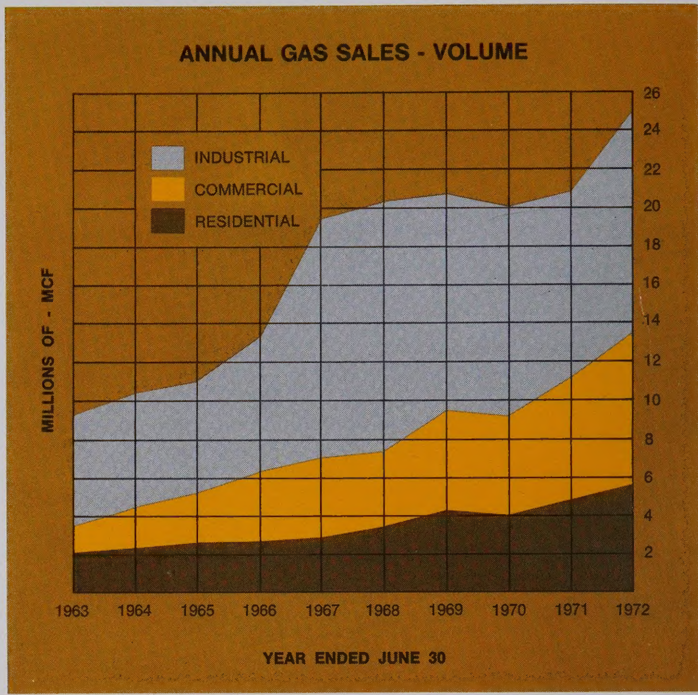
J. McMahon

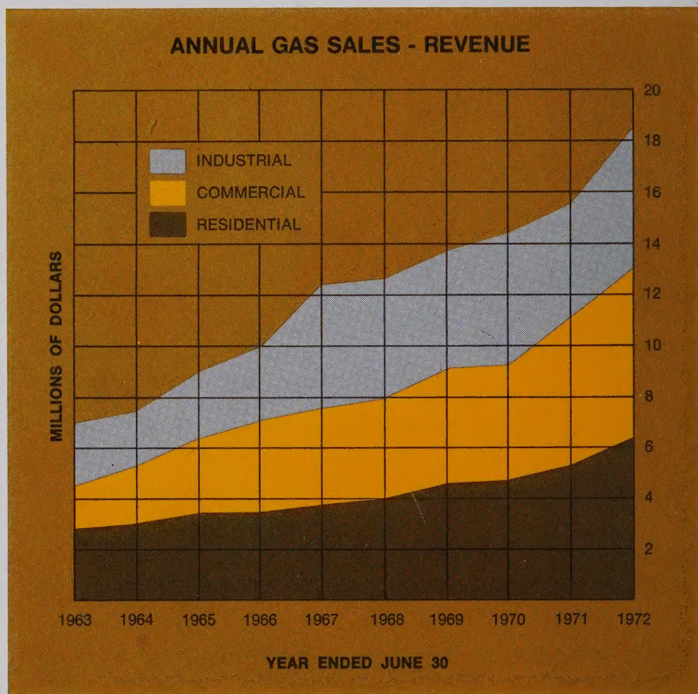
Chairman of the Board and President
September 22, 1972

DIRECTORS' REPORT

Revenue

Your Company's gross revenues for the year under review reached a record level of $19,795,924 compared to $16,758,268 for the previous year. There were a number of factors which contributed to this eighteen percent increase. The addition of 4,598 new residential, commercial and small industrial customers during the year brought our total customer count in these classifications to 46,992 at June 30, 1972. This is an eleven percent increase over the 42,394 customers using gas at June 30, 1971. Revenues from residential, commercial, and small industrial customers increased by almost seventeen percent to $13,024,435 as a result of adding the aforementioned new customers and having temperatures throughout the year at near record lows. Industrial revenues also showed a major increase to $5,245,441 compared to $4,389,716 in the prior year. This increase was mainly the result of increased loads at Cominco, who resumed operation of their fertilizer plant in December, 1971, along with additional volumes sold to Weyerhaeuser Canada Ltd. for their pulp mill at Kamloops, and increases to other industrial customers who were on stream for only part of the previous fiscal year. Other operating revenue consisting of income from the sale, rental, and financing of gas appliances and customer connection charges rose to $394,498 compared to $259,690 in fiscal 1971 due primarily to an increase in customer connection fees during the current year.





Expenses

The largest single item of expense incurred during the year was the cost of natural gas purchased. The current year's cost of gas purchased for Inland's utility operations was $8,117,278 compared to $6,949,267 in the prior year. This increase was due mainly to the increased volumes purchased. However, part of our cost during the current year is attributable to severe winter conditions which hampered transportation throughout the Province, making it impossible to provide a continuous supply of propane to our peak shaving plants. As a result, we were compelled to take gas from our supplier, Westcoast Transmission Company Limited, in excess of our contract demand, thereby incurring a penalty of $121,400.

Operation and maintenance expenses for fiscal 1972 were $2,176,478, up from $1,837,072 in fiscal 1971. Salaries, wages and related employee benefits of $2,328,262 compared to $1,889,000 in the previous year accounted for much of this increase. However, new plant additions are, for the most part, constructed by the Company's own work force and therefore, a substantial portion of employee remuneration and related costs are capitalized.

The Company employed, on the average, 205 employees during the year compared to an average of 188 employees during the prior year. The increased average number of employees was partly due to additional temporary construction personnel required by the magnitude of our capital program and, to some extent, additional operating personnel necessary to serve extensive customer growth. New permanent employees were also added in the measurement and dispatch departments which were enlarged during the year as described later in this report under Capital Expenditures.

Approximately 70% of the Company's personnel are unionized and are covered by two separate collective agreements. A two-year agreement with the Office and Technical Employees Union expires on March 31, 1973, and a new two-year agreement signed during the year with the International Brotherhood of Electrical Workers expires September 12, 1973.

Property and Franchise Taxes

Over the years, your Company has been a major revenue contributor to the communities it serves. This year $947,150 was paid to communities in the form of franchise fees and property taxes, an increase of $114,909 over the previous year's payment.

Depreciation

The following table sets out depreciation rates for major plant classifications:

Transmission and distribution mains	2%
Meters, compressors, buildings, measuring and regulating equipment	3%
Other general equipment	5% to 15%

The composite rate of depreciation was 2.40% compared to 2.41% in the prior year. Consolidated depreciation in fiscal 1972 was $1,260,269 compared to $1,213,018 in fiscal 1971.

Interest

Interest on funded debt increased from $1,773,142 in fiscal 1971 to $2,124,488 in the year under review. This was the net result of the issue on November 1, 1971 of $7.5 million, 8¼%, 20-year First Mortgage Bonds, and the retirement of certain long-term debt in accordance with sinking fund requirements. Other interest of $205,529 resulted from short-term borrowing in the form of bank loans, Bankers' Acceptances, and the Company's own commercial paper. Offsetting the abovementioned interest costs was a credit to interest charged to construction representing the capitalization of interest on funds during the period of construction of major plant additions. Interest charged to construction in the current year amounted to $264,894 compared to $24,228 in the prior year. The sharp increase in interest capitalized was due to the extent of our capital program in relation to that of the previous year.

Income Taxes

Income taxes of $1,031,727 were only slightly higher than the $992,262 recorded in the previous year. The relatively low rate of income tax this year was due to the high level of capital cost allowance claimed as a result of the large capital program during the year.

Note 1 to the Consolidated Financial Statements sets out the Company's method of computing income taxes.

Income Tax Reform

New income tax legislation provided for two separate valuation days, December 22, 1971 for publicly traded shares and December 31, 1971 for all other capital properties including bonds. For the convenience of owners of Inland's securities, the appropriate valuation day values are set out as follows:

Common Shares	$13.00
Preference Shares	14.50
6¼% Series C Bonds	88.50
8% Series D Bonds	99.50
8¼% Series E Bonds	100.50
5½% Series A Debentures	92.50

Capital Expenditures

During the past year, your Company completed a $13,800,000 capital program which was the largest since construction of the original transmission and distribution system. Approximately $3,500,000 was expended on this program during the year ended June 30, 1971, and was included in work in progress at that time.

A major project was construction of 102 miles of 12" transmission line from the Westcoast main line near Kingsvale to Inland's transmission line in the vicinity of Oliver, B.C. Other capital projects included the installation of propane-air peak shaving plants in Kelowna and Penticton, and construction of transmission and distribution facilities to serve the Villages of Ashcroft, Cache Creek and Logan Lake. Metering and flow control stations were installed at Kingsvale and Savona, B.C. These stations are remotely controlled from Inland's head office in Vancouver. Your Company's gas measurement and dispatch departments were upgraded during the year with the purchase of new chart integration equipment and additions to the existing flow control panel. The Company also completed construction of a new combined sales, service and construction centre in Kamloops. (The head office flow control panel and the new Kamloops building are pictured on Page 8 of this report.)

Future Capital Expenditures

Your Company's capital requirements for the coming year will total approximately $5,110,000. These expenditures will consist of $2,150,000 for routine mains, services, and meter installations, $130,000 for equipment and $2,830,000 for special projects. Special projects during the ensuing fiscal year will include looping a large section of our transmission system supplying Mackenzie. This will provide for increased gas requirements in that community necessitated by residential and commercial growth and also the recently constructed B.C. Forest Products Ltd. pulp mill. Extensions will also be made to serve the Villages of South Fort George and Keremeos. Detailed studies of Inland's transmission facilities, gas dispatch, and communication systems enabled formulation of long-range plans for the operation of the transmission systems. The studies indicated the need for compressor stations at Savona and Kingsvale during the coming year. These two stations, which will be unattended and remotely controlled from Vancouver, are presently being installed to meet forecasted deliveries for the coming winter.

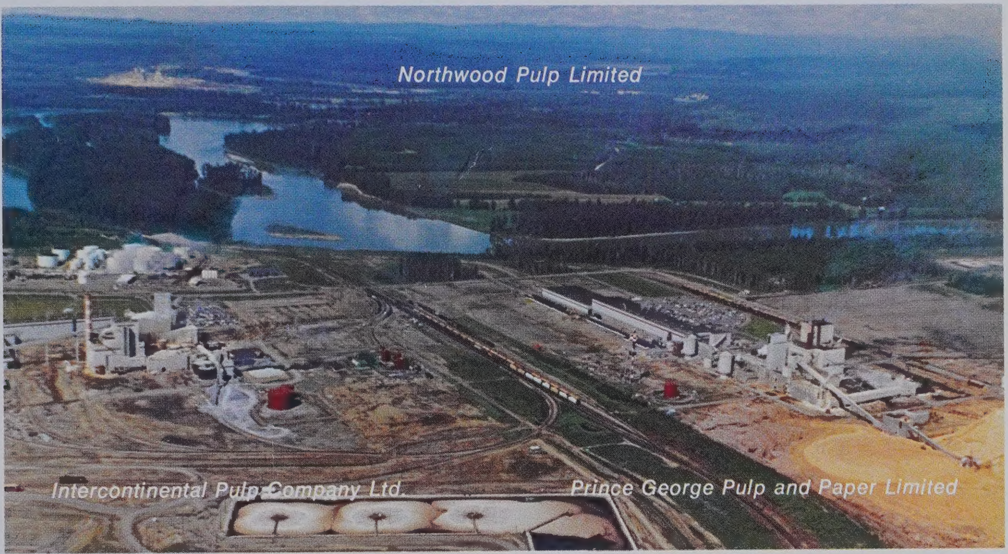
Commercial and industrial growth without adverse effect to the environment is made possible through use of clean-burning Natural Gas.

These two pages illustrate buildings and plants typical of Inland's commercial and industrial customers.

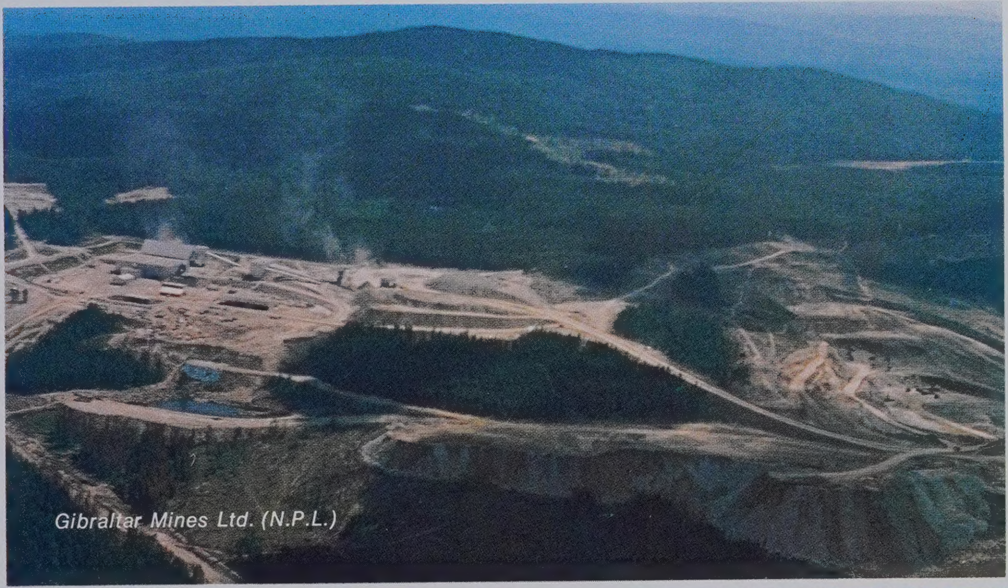
Left: Artist's Conception of the Oxford Building, Prince George.

Below: Royal Trust Company, Kelowna.

Bottom: Artist's Conception of the Royal Bank Building, Kamloops.


Northwood Pulp Limited
Intercontinental Pulp Company Ltd.
Prince George Pulp and Paper Limited


Hiram Walker & Sons Limited Okanagan Distillery


Gibraltar Mines Ltd. (N.P.L.)

Financing

On November 1, 1971, your Company completed a $7.5 million issue of 8¼% First Mortgage Sinking Fund Bonds, Series E. These funds were expended on capital projects during the year. Inland has an established line of credit with its corporate bankers which, along with internally generated funds, will provide all cash requirements for the coming year. It is planned that some form of permanent financing will be undertaken in the 1973 calendar year for repayment of short-term borrowings. The exact amount and type of such long-term financing will be determined at a later date.

Share Distribution

Approximately 95% of the shareholders of Preference and Common stock of the Company are resident in Canada. The distribution of each class of shares is set out below:

	Shareholders		Shares Held	
	1972	1971	1972	1971
Preference				
Canada	2,303	2,340	397,928	397,764
U.S.A.	17	15	1,571	1,610
Others	8	7	501	626
	2,328	2,362	400,000	400,000
Common				
Canada	5,059	4,407	2,337,680	2,294,126
U.S.A.	303	315	212,317	213,340
Others	87	88	272,125	314,656
	5,449	4,810	2,822,122	2,822,122

The principal and interest payments on all of the funded debt of the Company are payable in Canadian funds only.

Sales and Market Development

The area of British Columbia served by your Company experienced an excellent growth rate during the year under review. This was mainly attributable to a general improvement in the economy and the location of new commercial and industrial business in our service area.

Residential construction in both single and multiple family units reached a record high, and natural gas was used in approximately 95% of these residences that were either within our distribution system or could be economically reached by extending our facilities.

The widespread acceptance of natural gas as a competitive, clean-burning form of energy has been aided by your Company's sales promotion and advertising campaigns. Close cooperation with architects, builders, consultants and construction associations ensures good working relationships between Inland and the construction industry. The consumption of natural gas has increased substantially in several areas of new construction through the use of such load-building appliances

Televised Gas Bar-B-Que cooking show conducted by Inland staff.

as swimming pool heaters, gas lights and barbeques, all of which Inland is actively promoting.

Price increases for competitive fuels have placed natural gas in a strong position for obtaining conversions from existing construction presently using other forms of energy. Advertising and promotional programs, which included direct mail and television coverage conducted in cooperation with heating contractors met with favourable results. Your Company will continue to actively promote the conversion of older homes and businesses from other types of fuel to natural gas.

Considerable importance is attached to maintaining good community relations on all levels. This has been achieved through a program involving demonstrations of appliances, film presentations and addresses to service clubs. Your Company has also kept up an active school program to inform students of the advantages of natural gas and the position Inland plays in their community.

Inland assists industrial and commercial development in its service area through advertising, consultation services and by taking an active part in development groups. These efforts have been well rewarded as an increasing number of resource-based and light manufacturing industries are locating in the area served by your Company.

WHOLLY-OWNED SUBSIDIARIES

Peace River Transmission Company Limited

The Company purchases gas from the gathering system of Westcoast Transmission Company Limited and delivers the gas through 33 miles of transmission lines to the outskirts of the City of Dawson Creek in northern British Columbia, where it is sold to Northland Utilities (B.C.) Limited for distribution in Dawson Creek and Pouce Coupe.

Gas sales increased to 1,175,096 Mcf from 1,094,516 Mcf in the previous year. Net income increased 10% to $36,323.

Construction on Inland Development Company's Orchardview Estates Subdivision in Vernon.

Grande Prairie Transmission Co. Ltd.

The Company purchases its gas from various fields north of Grande Prairie in the Peace River area of Alberta and transmits it for resale by Northland Utilities Limited to the City of Grande Prairie and five small communities in the immediate area.

Gas sales for the year ended June 30, 1972 were 1,709,491 Mcf compared to 1,353,544 Mcf in the prior year. Net income increased to $75,506 in the current year from $29,540 in the previous year. The significant increase in net income was the result of the increased volumes sold, mentioned above, and a rate increase approved by the Public Utilities Board of Alberta, effective March 1, 1971.

Considerable growth has taken place in the City of Grande Prairie largely due to the new $90 million Proctor & Gamble Company pulp mill located near the city. In order to serve this growth, contracts are under negotiation with additional producers for the purchase of gas from fields not yet connected to the Grande Prairie transmission system and an application has been made to the Alberta Energy Resources Conservation Board to construct the necessary facilities to deliver the gas.

St. John Gas & Oil Co. Ltd.

This Company, which has been relatively inactive for many years, entered into a Farm-out Agreement with a group of exploration companies this year. The Agreement covers the drilling of five exploratory wells in the Peejay Area of the Peace River district of Northern British Columbia. The total acreage in which the Company participates is 22,029 acres. The Agreement commits the Company to contribute 25% of the total well costs, with the right to earn a 12½% interest in the leases and lands under consideration. Drilling is progressing and the Company is hopeful of favourable results. The estimated cost to the Company is $79,000.

Inland Development Co. Ltd.

During the year under review, Inland Development has been active in several projects in our service area.

The major project during the year was the development of a 63 lot subdivision in Vernon. Marketing of the 63 lots, together with five lots remaining from an earlier stage of the subdivision, has been most successful and all lots are now sold.

The Company also has another residential subdivision underway comprised of 47 lots in the District of Coldstream. This development is in a prime area, and we expect the lots to be ready for sale in time for the Fall building market. In addition to this subdivision, we have obtained an option on another piece of property in the Coldstream area which we intend to have ready for sale in the Spring of 1973.

A major portion of industrial land held by the Company in Winfield was sold in June to Hiram Walker & Sons Limited. This property, consisting of 50.9 acres will be landscaped and eventually used for storage sheds. The remaining 59.1 acres, adjacent to the Distillery, is excellent industrial property and we are currently looking towards the establishment of an Industrial Park.

We anticipate an active upcoming year for Inland Development, with more emphasis on land development to meet the shortage of prime building lots in certain areas of the Inland Natural Gas Co. Ltd. service area.

To Our Employees

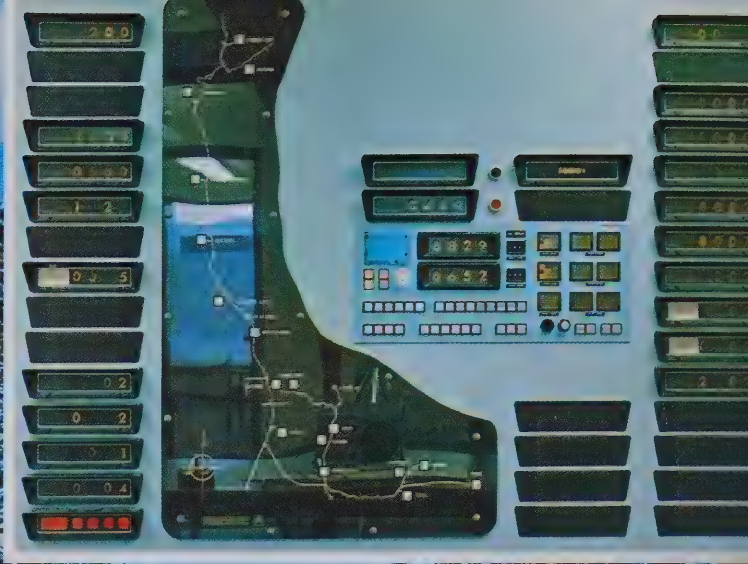
The past year has been the most active your Company has yet experienced, both from the point of view of new customer acquisitions and the capital program. The dedication and loyalty of our employees has been largely responsible for the success we have enjoyed, and on behalf of the Board of Directors and Shareholders, we extend our appreciation to each employee.

For the Board of Directors

J. A. McMahon

Chairman of the Board and President
September 22, 1972

This new installation at Kingsvale, B.C. controls the pressure and volume of gas entering the Company's transmission system. Its operations are monitored from Vancouver through the telemeter control panel.



Inland's new combined sales, service, operation and construction centre at Kamloops features drive-in pay facilities.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED JUNE 30

	1972	1971
REVENUE		
Sale of gas	$19,141,403	$16,264,548
Transportation allowance	260,023	234,030
Other operating revenue	394,498	259,690
	19,795,924	16,758,268
EXPENSES		
Purchase of gas	8,482,097	7,255,902
Operation and maintenance	2,176,478	1,837,072
Property and franchise taxes	947,150	832,241
Depreciation (Note 1)	1,260,269	1,213,018
Interest on funded debt	2,124,488	1,773,142
Other interest	205,529	165,745
Amortization of funded debt issue costs (Note 1)	67,179	67,157
Interest charged to construction	(264,894)	(24,228)
	14,998,296	13,120,049
Income before income taxes	4,797,628	3,638,219
Income taxes (Note 1)	1,031,727	992,262
NET INCOME	$ 3,765,901	$ 2,645,957
EARNINGS PER COMMON SHARE (Note 5)	$ 1.19	$ 0.87

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED JUNE 30

	1972	1971
BALANCE AT BEGINNING OF YEAR	$ 7,033,342	$ 6,288,692
Net income for the year	3,765,901	2,645,957
	10,799,243	8,934,649
Dividends on preference shares—$1.00 per share	400,000	400,000
Dividends on common shares—$.63 per share in 1972; $.55 in 1971	1,777,937	1,414,514
Common share issue costs, net of income taxes	—	86,793
Preference share issue costs (Note 1)	177,753	—
	2,355,690	1,901,307
BALANCE AT END OF YEAR	$ 8,443,553	$ 7,033,342

The accompanying notes are part of these financial statements.

CONSOLIDATEI
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ASSETS

	1972	1971
CURRENT ASSETS		
Cash	$ 364,779	$ 439,531
Accounts receivable	2,186,508	1,581,066
Inventories of materials and supplies, at cost	1,031,779	823,693
Prepaid expenses	86,802	56,952
	3,669,868	2,901,242
NON-CURRENT ASSETS		
Mortgages and other long-term receivables	323,578	488,550
Investment in marketable securities, at cost (quoted market 1972 - $90,000, 1971 - $90,000)	100,000	100,000
Real estate held for resale, at cost	290,785	417,718
	714,363	1,006,268
PROPERTY, PLANT AND EQUIPMENT, at cost		
Natural gas transmission lines and distribution systems	62,741,452	54,389,869
Plant, buildings and equipment	4,536,443	3,111,625
Land and land rights	1,487,477	1,233,839
	68,765,372	58,735,333
Accumulated depreciation	9,012,022	8,010,463
	59,753,350	50,724,870
Interest in petroleum and natural gas properties	123,626	80,338
Accumulated depletion	57,400	54,651
	66,226	25,687
	59,819,576	50,750,557
OTHER ASSETS AND DEFERRED CHARGES		
Unamortized preference share issue costs (Note 1)	1,087,926	1,265,678
Unamortized funded debt issue costs (Note 1)	917,303	817,000
Incorporation and organization expenses	25,108	25,108
	2,030,337	2,107,786
	$66,234,144	$56,765,853

The accompanying notes are part of these financial statements.

ALANCE SHEET
NE 30

LIABILITIES

	1972	1971
CURRENT LIABILITIES		
Bank loan	$ 70,602	$ —
Notes payable	4,000,000	1,300,000
Accounts payable	1,799,665	3,647,372
Dividends payable	100,000	100,000
Income taxes	65,019	338,696
Interest accrued on funded debt	366,651	276,378
Property and franchise taxes accrued	793,927	711,725
Bonds redeemable within one year	74,000	—
	7,269,864	6,374,171
LONG-TERM DEBT (Note 2)		
Funded debt	33,839,500	27,053,000
Other	375,887	—
	34,215,387	27,053,000
SHAREHOLDERS' EQUITY		
SHARE CAPITAL		
5% Cumulative preference shares, par value $20 per share, redeemable at not more than $21 per share		
Authorized: 500,000 shares		
Issued: 400,000 shares	8,000,000	8,000,000
Common shares, par value $1 per share (Note 3)		
Authorized: 5,000,000 shares		
Issued: 2,822,122 shares	2,822,122	2,822,122
PREMIUM ON COMMON SHARES	5,483,218	5,483,218
RETAINED EARNINGS (Note 4)	8,443,553	7,033,342
	24,748,893	23,338,682
	$66,234,144	$56,765,853

Approved on behalf of the Board

JOHN A. McMAHON, Director

R. LAIRD CLIFF, Director

INLAND NATURAL GAS CO. LTD.
and Wholly-owned Subsidiaries

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED JUNE 30

	1972	1971
SOURCE OF FUNDS		
Operations		
Net income for the year	**$ 3,765,901**	$ 2,645,957
Add – Non-cash charges to income		
Depreciation (Note 1)	**1,260,269**	1,213,018
Amortization of funded debt issue costs (Note 1)	**67,179**	67,157
Cash flow from operations	**5,093,349**	3,926,132
Gain on purchase of funded debt for sinking funds (Notes 1 and 2)	**75,163**	83,344
Decrease in non-current assets	**291,905**	17,307
Common shares issued	**—**	2,502,790
Funded debt issued	**7,500,000**	—
Other long-term debt issued	**453,084**	—
	13,413,501	6,529,573
APPLICATION OF FUNDS		
Additions to property, plant and equipment	**10,329,289**	5,494,900
Dividends on preference and common shares	**2,177,937**	1,814,514
Sinking fund for bonds and debentures (Note 2)	**713,500**	874,000
Common share issue costs, net	**—**	86,793
Funded debt issue costs	**242,645**	—
Reduction in other long-term debt	**77,197**	—
	13,540,568	8,270,207
DECREASE IN WORKING CAPITAL	**127,067**	1,740,634
Working capital deficit at beginning of year	**3,472,929**	1,732,295
WORKING CAPITAL DEFICIT AT END OF YEAR	**$ 3,599,996**	$ 3,472,929

The accompanying notes are part of these financial statements.

AUDITORS' REPORT

To the Shareholders
Inland Natural Gas Co. Ltd.

We have examined the consolidated balance sheet of Inland Natural Gas Co. Ltd. and its wholly-owned subsidiaries as at June 30, 1972 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
August 25, 1972

RIDDELL, STEAD & CO.
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at June 30, 1972

1. Accounting Policies

a) Principles of Consolidation

The consolidated financial statements include the accounts of Inland Natural Gas Co. Ltd. and its subsidiaries, all of which are wholly-owned.

b) Other Assets and Deferred Charges

Funded debt issue costs are amortized over the life of the issues. Commencing in 1970, in compliance with an order of the Public Utilities Commission of British Columbia, gains on purchase of debt securities for sinking funds are amortized over the remaining life of the issues as a reduction of debt charges.

Commencing in 1972, preference share issue costs are being amortized to retained earnings at the annual rate (1%) prescribed by the Public Utilities Commission of British Columbia. The charge to retained earnings of $177,753 includes an amount of $165,096 relating to prior years.

c) Depreciation

Depreciation is computed on a straight-line basis in conformity with requirements of the Public Utilities Commission of British Columbia whereby approved depreciation rates for each class of plant, designed to amortize the cost of the assets over their estimated useful lives are applied to the Company's investment in such plant at the beginning of the year. The application of these rates for the year ended June 30, 1972, results in a composite rate of 2.40%. Rates for major plant classifications are as follows:

Transmission and distribution mains	2%
Meters, compressors, buildings, measuring and regulating equipment	3%
General equipment	5% to 15%

d) Income Taxes

The companies claim capital cost allowances and certain other deductions for income tax purposes in excess of the related amounts recorded in their accounts, thereby reducing income taxes which would otherwise have been charged against income by $1,021,000 for the 1972 fiscal year and $9,135,000 in total to June 30, 1972. Since only the taxes currently payable are claimed for regulatory purposes in setting consumer rates, as has been approved by the companies' regulatory authorities, the companies follow the taxes payable basis and make no provision for such reductions. This method is considered appropriate in these circumstances by the Canadian Institute of Chartered Accountants.

3. Share Capital

The Series D bonds were issued with share purchase warrants which entitled holders to purchase common shares of the Company on or before June 15, 1979 at $17.50 per share, such price being subject to adjustment in certain events. On June 21, 1971 following the issue of common shares pursuant to the rights offering, the warrant exercise price was adjusted to $16.83 per share. 75,000 unissued shares have been reserved to meet this commitment.

4. Retained Earnings

The Trust Deed relating to the First Mortgage Sinking Fund Bonds contains certain restrictions upon the payment of dividends. All of the Company's retained earnings were free of these restrictions at June 30, 1972.

5. Earnings Per Common Share

Earnings per common share have been calculated using the weighted monthly average number of shares outstanding during the respective fiscal years. Dividend requirements on preference shares of $400,000 each year were deducted from net income for purposes of these calculations.

There is no material dilution of earnings per share resulting from common share purchase warrants outstanding at June 30, 1972.

6. Remuneration of Directors

Remuneration paid to directors, including fees and salaries as officers, amounted to $119,105 for the year ended June 30, 1972.

7. Pension Plan

The Company revised its pension plan for salaried employees effective January 1, 1970. The actuarial liability for past service benefits arising from these revisions, $197,000 as at June 30, 1972, is being funded and charged to operations over a twenty year period to 1989 in annual amounts of $18,400.

8. Contingent Liability

The Company has guaranteed collection of certain second mortgages sold by Inland Development Co. Ltd. in the amount of $172,000 as at June 30, 1972.

2. Long-Term Debt

Funded debt	Total Outstanding	Current Liability	Long-Term 1972	Long-Term 1971
First mortgage sinking fund bonds				
6¼% Series C, due May 1, 1983	$16,534,500	$ —	$16,534,500	$16,943,000
8% Series D, due December 31, 1989	5,000,000	74,000	4,926,000	5,000,000
8¼% Series E, due November 1, 1991	7,500,000	—	7,500,000	—
	29,034,500	74,000	28,960,500	21,943,000
Convertible sinking fund debentures				
5½% Series A, due February 15, 1977	4,879,000	—	4,879,000	5,110,000
	$33,913,500	$74,000	$33,839,500	$27,053,000

The first mortgage bonds are secured by a Trust Deed which constitutes in favour of the Trustee a first, fixed and specific mortgage and charge of and upon certain property of the Company and a first floating charge on the undertaking and all other property and assets, present and future of the Company, in the manner and to the extent set forth in the Trust Deed.

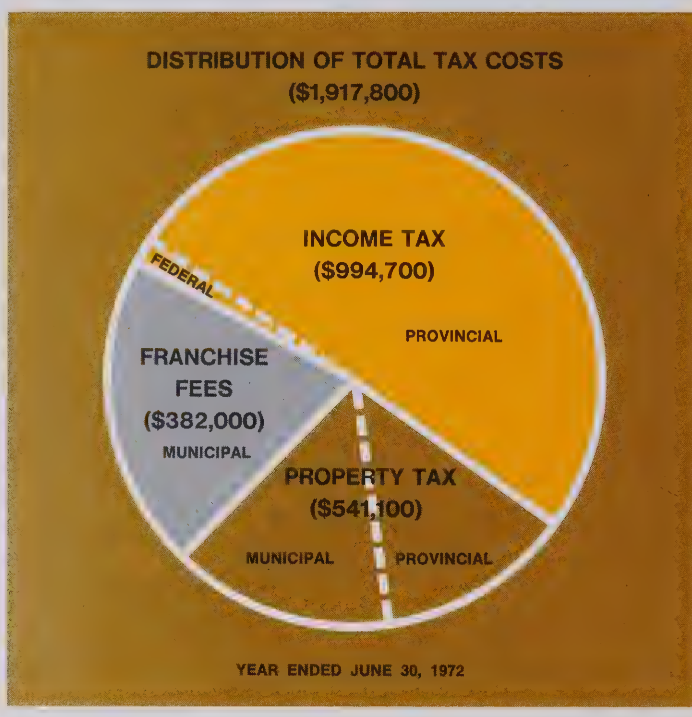
The Series A debentures are (inter alia) unsecured obligations of the Company but are subject to restrictions of the Trust Indenture dated February 15, 1957. The convertible feature of the debentures expired November 15, 1967.

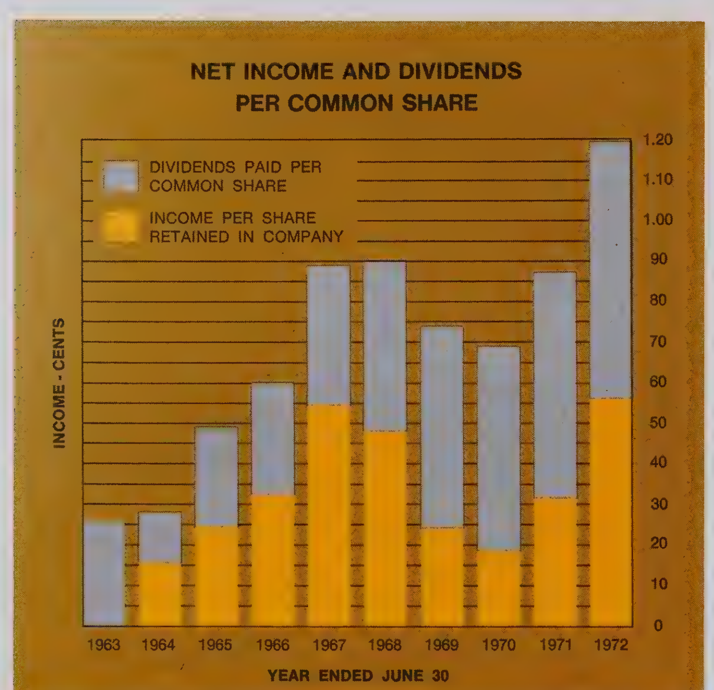
The trust agreements relating to the bonds and debentures require the Company to establish sinking funds to retire approximately 50% of each issue prior to maturity. The annual requirements to date have been fulfilled by retirement of the stipulated amount of such securities. Sinking fund requirements and debt maturities over the next five years are 1973 — $844,000; 1974 — $883,000; 1975 — $924,000; 1976 — $1,089,000; 1977 — $5,066,000. During the year ended June 30, 1972 the Company has purchased and retired $231,000 Series A debentures and $408,500 Series C bonds in satisfaction of the balance of the respective 1973 sinking fund requirements and a portion of the 1974 requirements.

Other
(issued by Inland Development Co. Ltd.)

9% Mortgage, repayable in monthly instalments of $2,001 based on a 20 year term to 1991	$218,405
Bank loan, secured, repayable on April 1, 1974 — $75,896; 1975 — $81,586	157,482
	$375,887

The respective current maturities are included in current liabilities.





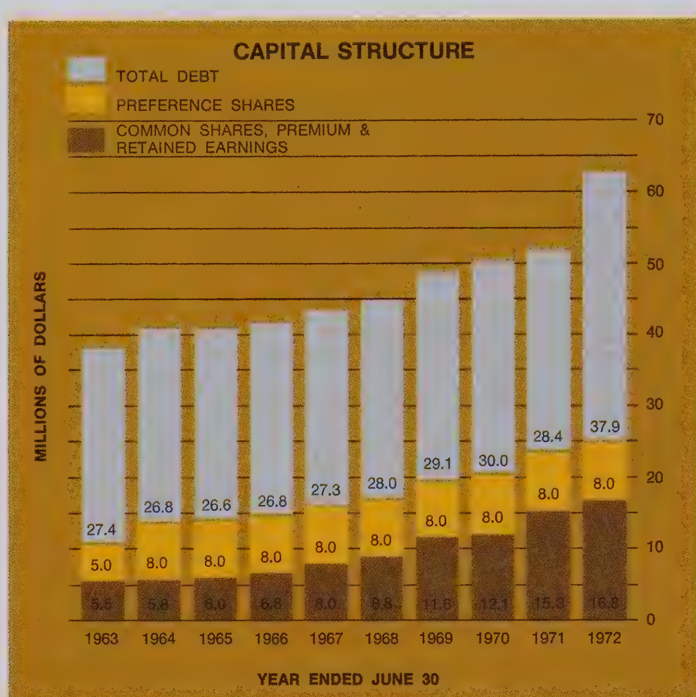
COMPARATIVE STATEMENT OF

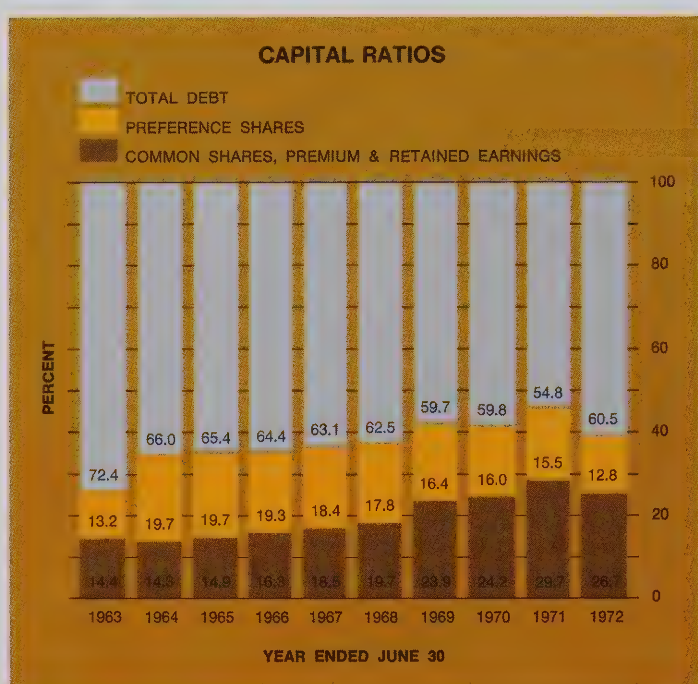
	1972
REVENUE	
Sale of gas	$18,269,877
Transportation allowance	260,023
Other income	331,191
	18,861,091
EXPENSES	
Purchase of gas	8,117,278
Operation and maintenance	2,015,214
Property taxes	541,075
Franchise fees	381,973
Depreciation	1,192,131
Interest on borrowed money	2,331,595
Amortization of funded debt issue costs	67,179
Interest charged to construction (credit)	(264,894)
	14,381,551
INCOME BEFORE INCOME TAXES	4,479,540
INCOME TAXES	994,769
NET INCOME	3,484,771
INCOME FROM SUBSIDIARY COMPANIES (net)	281,130
NET CONSOLIDATED INCOME	$ 3,765,901
DIVIDENDS	
Preference shares	$ 400,000
Common shares	1,777,937
Total dividends	$ 2,177,937
NUMBER OF COMMON SHARES (average)	2,822,122
EARNINGS PER COMMON SHARE (after provision for preference dividends)	$ 1.19
DIVIDENDS PER COMMON SHARE	$ .63

CONSOLIDATED INCOME AND DIVIDENDS

1971	*1970*	*1969*	*1968*	*1967*	*1966*	*1965*	*1964*	*1963*
15,544,855	14,146,424	13,960,737	12,545,300	12,234,227	9,799,765	8,479,660	7,423,563	6,556,089
234,030	229,032	199,400	151,800	151,800	174,053	175,656	151,800	151,800
242,211	219,627	259,489	275,416	278,255	227,722	197,646	188,415	121,719
16,021,096	14,595,083	14,419,626	12,972,516	12,664,282	10,201,540	8,852,962	7,763,778	6,829,608
6,949,267	6,650,914	6,702,964	5,971,774	5,694,852	4,280,876	3,557,154	3,212,773	2,996,460
1,713,627	1,655,258	1,764,769	1,486,372	1,618,442	1,392,008	1,136,138	982,487	836,784
475,903	430,785	386,764	346,214	316,294	298,680	262,875	225,686	185,064
333,279	258,094	257,692	211,725	199,773	192,324	175,890	147,940	128,841
1,154,571	1,037,895	965,584	916,347	868,390	803,515	768,834	733,427	493,426
1,956,895	1,948,695	1,791,638	1,708,993	1,680,905	1,637,693	1,631,624	1,637,036	1,582,600
67,157	74,994	97,625	97,215	97,215	97,215	97,215	97,130	61,468
(24,228)	(18,806)	(25,023)	(8,340)	(14,188)	(21,342)	(12,544)	(3,393)	(1,928)
12,626,471	12,037,829	11,942,013	10,730,300	10,461,683	8,680,969	7,617,186	7,033,086	6,282,715
3,394,625	2,557,254	2,477,613	2,242,216	2,202,599	1,520,571	1,235,776	730,692	546,893
956,362	594,511	490,580	—	—	—	—	—	—
2,438,263	1,962,743	1,987,033	2,242,216	2,202,599	1,520,571	1,235,776	730,692	546,893
207,694	179,306	215,613	275,547	286,423	285,628	301,741	314,517	322,701
2,645,957	2,142,049	2,202,646	2,517,763	2,489,022	1,806,199	1,537,517	1,045,209	869,594
400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	250,000
1,414,514	1,285,921	1,228,367	995,191	819,569	643,948	585,406	292,703	—
1,814,514	1,685,921	1,628,367	1,395,191	1,219,569	1,043,948	985,406	692,703	250,000
2,578,100	2,571,843	2,437,550	2,341,625	2,341,625	2,341,625	2,341,625	2,341,625	2,341,625
.87	.68	.74	.90	.89	.60	.49	.28	.26
.55	.50	.50	.42½	.35	.27½	.25	.12½	—

CONSOLIDATED BALANC



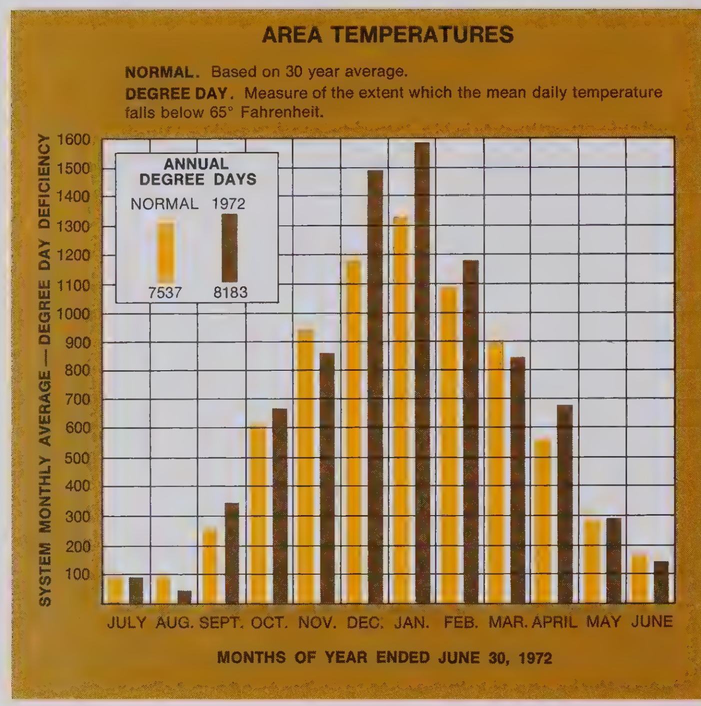


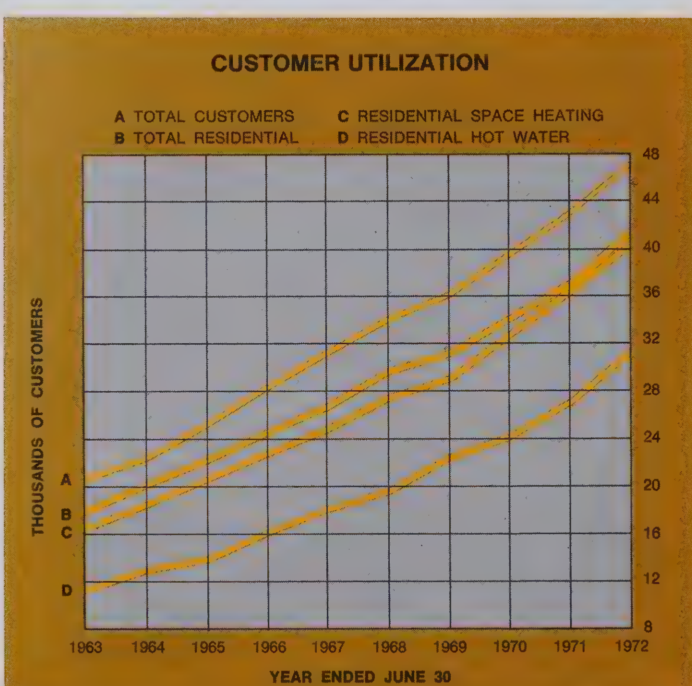
	1972
MILES OF COMPANY OWNED LINES	
Transmission	769
Distribution	898
Services	671
Transmission–subsidiaries	115
UTILITY PLANT ($000)	
Transmission	$31,997
Distribution	29,192
Stand-by	888
General	2,878
Construction work in process	591
Total utility plant	65,546
SUBSIDIARIES' PLANT	3,343
	68,889
ACCUMULATED DEPRECIATION	
Inland Natural Gas Co. Ltd.	8,225
Subsidiary companies (including depletion)	844
	9,069
NET CONSOLIDATED PLANT	$59,820
CAPITALIZATION ($000)	
First mortgage bonds	$28,960
Debentures	4,879
Short-term notes and bank loan (net)	4,071
Total debt	37,910
Preference shares	8,000
Common shares	2,822
Premium on common shares	5,483
Retained earnings	8,444
	$62,659
PERCENT OF TOTAL CAPITALIZATION	
First mortgage bonds	46.2
Debentures	7.8
Short-term notes and bank loan (net)	6.5
Total percent of debt	60.5
Preference shares	12.8
Common shares	4.5
Premium on common shares	8.7
Retained earnings	13.5
	100.0
RATIOS	
First mortgage bond interest-times earned	3.89
Total debt interest – times earned	3.09
Preference dividends – times earned	9.41

SHEET INFORMATION

1971	1970	1969	1968	1967	1966	1965	1964	1963
624	603	559	481	471	440	408	400	393
831	778	691	626	576	541	496	457	433
614	569	526	491	458	424	385	351	319
115	115	115	115	109	109	102	102	102
22,864	22,615	21,322	19,300	18,570	18,081	17,544	17,231	17,190
26,325	24,727	22,378	20,806	19,258	17,818	16,098	14,890	13,605
340	340	338	337	333	324	321	319	318
3,080	3,313	3,172	2,963	2,953	2,780	2,639	2,381	2,251
3,499	134	896	615	508	68	50	39	77
56,108	51,129	48,106	44,021	41,622	39,071	36,652	34,860	33,441
2,708	2,688	2,570	2,512	2,496	2,466	2,298	4,447	4,297
58,816	53,817	50,676	46,533	44,118	41,537	38,950	39,307	37,738
7,277	6,615	5,726	4,862	4,017	3,218	2,455	1,758	1,032
788	733	680	632	581	532	481	1,215	1,091
8,065	7,348	6,406	5,494	4,598	3,750	2,936	2,973	2,123
50,751	46,469	44,270	41,039	39,520	37,787	36,014	36,334	35,615
21,943	22,567	23,478	18,894	19,285	19,653	20,000	20,000	20,000
5,110	5,360	5,600	5,840	6,080	6,320	6,500	6,800	7,027
1,300	2,031	—	3,258	2,000	800	100	—	400
28,353	29,958	29,078	27,992	27,365	26,773	26,600	26,800	27,427
8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	5,000
2,822	2,572	2,572	2,342	2,342	2,342	2,342	2,342	2,342
5,483	3,231	3,231	1,159	1,159	1,159	1,159	1,159	1,159
7,034	6,289	5,833	5,335	4,526	3,262	2,519	2,316	1,964
51,692	50,050	48,714	44,828	43,392	41,536	40,620	40,617	37,892
42.4	45.1	48.2	42.2	44.5	47.3	49.2	49.3	52.8
9.9	10.7	11.5	13.0	14.0	15.2	16.0	16.7	18.5
2.5	4.0	—	7.3	4.6	1.9	.2	—	1.1
54.8	59.8	59.7	62.5	63.1	64.4	65.4	66.0	72.4
15.5	16.0	16.4	17.8	18.4	19.3	19.7	19.7	13.2
5.5	5.1	5.3	5.2	5.4	5.6	5.8	5.8	6.2
10.6	6.5	6.6	2.6	2.7	2.8	2.9	2.8	3.0
13.6	12.6	12.0	11.9	10.4	7.9	6.2	5.7	5.2
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
3.81	3.09	3.87	3.62	3.50	2.91	2.64	2.25	2.51
2.91	2.48	2.60	2.54	2.55	2.18	2.02	1.72	1.63
6.62	5.36	5.51	6.29	6.22	4.52	3.84	2.61	3.48

COMPARATIVE STATEMENT OF SALES





	1972
REVENUE ($000)	
Residential	$ 6,224
Commercial	4,375
Special construction	—
Small industrial	2,426
Large industrial	5,245
Total natural gas revenue	$ 18,270
SALES (MMcf)	
Residential	5,604
Commercial	4,510
Special construction	—
Small industrial	3,415
Large industrial	11,311
Total natural gas sales	24,840
CUSTOMERS AT YEAR END	
Residential	41,094
Commercial	5,800
Special construction	—
Small industrial	98
Customers at year end	46,992
CUSTOMER STATISTICS	
Average use per customer (Mcf)	
Residential	144
Commercial	808
Average rate per Mcf	
Residential	$ 1.11
Commercial	$ 0.97
COST OF NATURAL GAS PURCHASED ($000)	$ 8,117
VOLUME OF NATURAL GAS PURCHASED (MMcf)	24,430
MAXIMUM DAY SENDOUT (Mcf) Including interruptible	105,869

***excluding subsidiary companies**

PURCHASES AND CUSTOMER STATISTICS*

	1971	1970	1969	1968	1967	1966	1965	1964	1963
	5,477	4,738	4,645	3,994	3,862	3,804	3,722	3,159	2,788
	4,226	3,566	3,316	2,748	2,391	2,421	2,201	1,720	1,491
	—	—	—	28	45	66	1	—	—
	1,452	1,272	1,419	1,142	1,238	837	535	376	243
	4,390	4,570	4,581	4,633	4,698	2,672	2,021	2,169	2,034
	15,545	14,146	13,961	12,545	12,234	9,800	8,480	7,424	6,556
	4,794	4,083	4,200	3,424	3,020	2,772	2,546	2,133	1,867
	4,366	3,630	3,389	2,702	2,295	2,171	1,895	1,456	1,257
	—	—	—	38	59	89	1	—	—
	2,124	1,892	2,050	1,688	1,842	1,211	747	527	345
	9,635	10,394	10,856	12,218	12,543	7,103	5,420	5,964	5,680
	20,919	19,999	20,495	20,070	19,759	13,346	10,609	10,080	9,149
	36,972	34,174	31,275	29,437	27,133	24,508	22,020	20,148	18,007
	5,360	5,121	4,635	4,318	4,013	3,687	3,355	2,979	2,677
	—	—	—	58	219	398	20	—	—
	62	51	69	78	79	73	58	48	36
	42,394	39,346	35,979	33,891	31,444	28,666	25,453	23,175	20,720
	135	125	138	121	117	119	121	112	111
	833	744	756	649	596	617	598	515	509
	1.14	1.16	1.11	1.17	1.28	1.37	1.46	1.48	1.49
	0.97	0.98	0.98	1.02	1.04	1.12	1.16	1.18	1.19
	6,949	6,651	6,703	5,972	5,695	4,281	3,557	3,213	2,996
	20,858	20,040	20,507	19,823	19,387	13,103	10,513	10,011	9,031
	92,848	90,839	97,944	84,624	80,447	58,353	51,740	42,711	48,466


J. VEERMAN

COMMUNITIES SERVED

Year Service Commenced		Estimated 1972	Population 1961
1957	Quesnel	6,750	5,300
	Williams Lake	12,100*	4,100
	100 Mile House	1,250	700
	Merritt	5,300	2,300
	Kamloops	28,500	16,530
	Valleyview	4,805	1,500
	Dufferin	779	500
	Armstrong	1,648	1,230
	Enderby	1,250	1,050
	Salmon Arm and Canoe	8,000	1,930
	Vernon	24,642*	9,200
	Kelowna	24,469	14,000
	Okanagan Mission	2,851	100
	Summerland	5,600	1,600
	Penticton	18,146	12,400
	Oliver	1,600	1,500
	Osoyoos	1,300	900
	Grand Forks	3,173	2,100
	Rossland	3,896	4,400
	Trail and Tadanac	11,149	11,400
	Warfield	2,132	2,210
	Kinnaird	2,846	1,400
	Castlegar	3,175	1,900
	Nelson	9,800	7,800
1958	Chetwynd	1,450	1,280
	Prince George	64,718*	13,320
1960	Shelley	170	150
1961	Oyama	1,900	1,880
1962	Lac La Hache	400	200
	Brocklehurst	9,200	3,000
	Rutland	11,117	1,500
1964	Savona	690	530
	Winfield	2,884	1,300
	Okanagan Falls	1,000	350
1965	W. A. C. Bennett Damsite and Hudson's Hope	1,700	70
	Robson	1,250	910
1967	Mackenzie	4,450	—
1968	Princeton	2,800	2,160
	Westsyde	4,750	940
	Falkland	398	410
	Coldstream	3,602	3,160
	Peachland	1,446	640
	Westbank	2,310	620
	Naramata	1,000	350
	Midway	504	390
	Lakeview Heights	2,071	325
1969	Clinton	1,100	1,020
	Lumby	1,000	840
	Barnhartvale	1,400	400
1971	Logan Lake	1,000	—
	Cache Creek	1,350	900
	Ashcroft	2,350	800
1972	Rayleigh	500	400
	South Fort George	1,282	1,480
	Keremeos	605	563
	Dallas	850	250
		316,408	146,188

*Including suburban area

Tourism is a major industry in the British Columbia interior. In 1971 approximately $98 million was spent by visitors to Inland's service area. Your Company benefits directly from this industry through the sale of gas to the many and varied tourist facilities, some examples of which are illustrated left:

Background picture: Skaha Lake, Penticton.

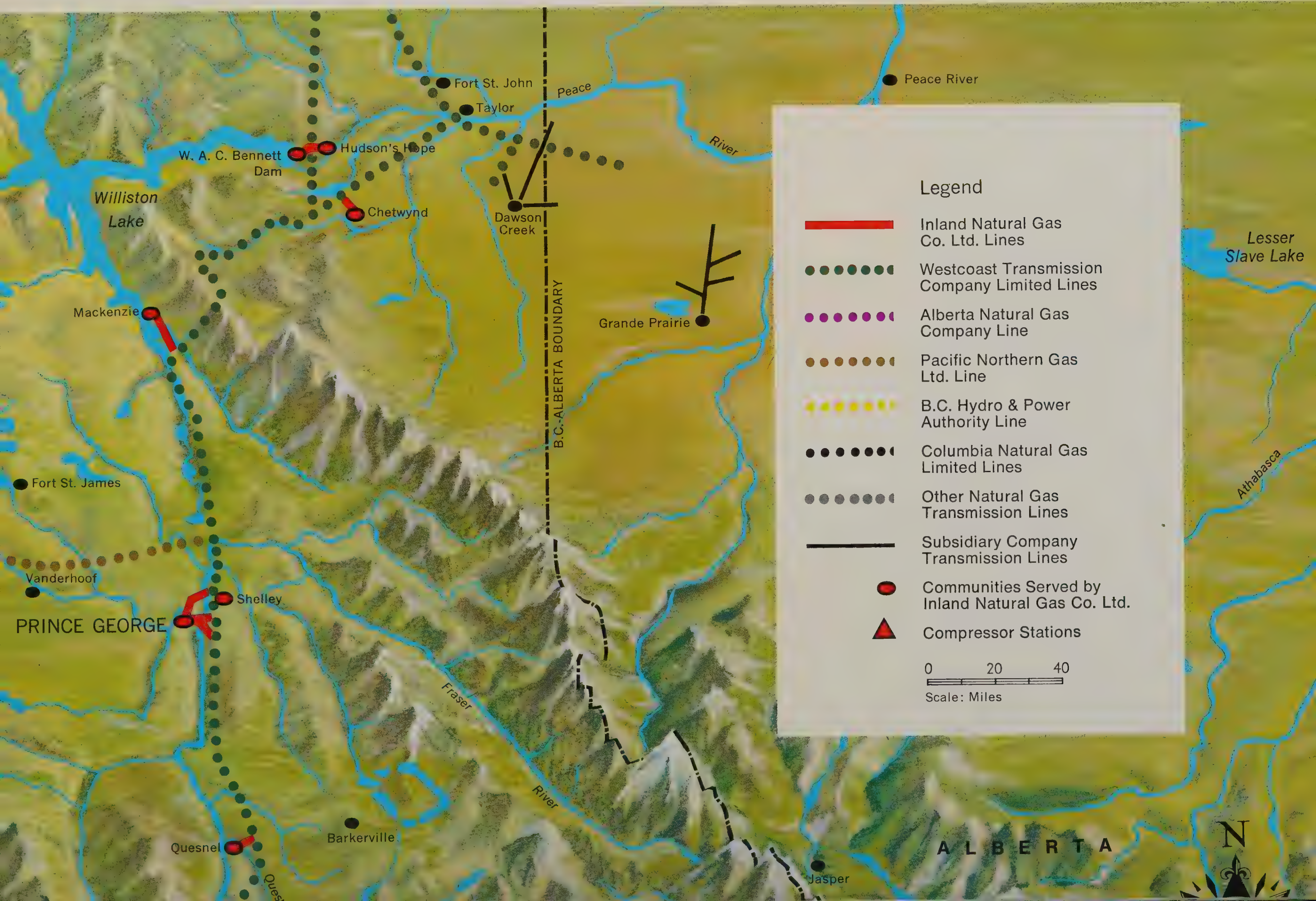
Top: Village Green Motor Hotel under construction at Vernon.

Centre: Penticton Motor Inn dining room.

Bottom: Pilgrim House Motor Hotel's gas-heated swimming pool.

Night view of the City of Kamloops.

INLAND NATURAL GAS CO. LTD. DISTRIBUTION AREA




BRITISH
COLUMBIA
Williams Lake
Lac La Hache
100 Mile House
Fraser
River
Clinton
Cache Creek
Savona
Ashcroft
Highland Valley
Logan Lake
KAMLOOPS
Salmon Arm
Canoe
Enderby
Armstrong
Falkland
Shuswap Lake
Revelstoke
Columbia Icefields
Lake Louise
Banff
Columbia River
VERNON
Coldstream
Lumby
Okanagan Lake
Oyama
Winfield
KELOWNA
Rutland
Westbank
Merritt
Peachland
Summerland
Naramata
PENTICTON
Princeton
Okanagan Falls
Keremeos
Oliver
Osoyoos
Midway
Grand Forks
Rossland
TRAIL
Arrow Lake
Kootenay Lake
NELSON
Robson
Castlegar
Kinnaird
Fruitvale
Salmo
Montrose
Creston
Skookumchuck
Kimberley
Cranbrook
Crowsnest
Fernie
Vancouver
Nanaimo
CANADA-U.S.A. BORDER
Bellingham
Victoria
WASHINGTON
Columbia River
IDAHO
MONTANA

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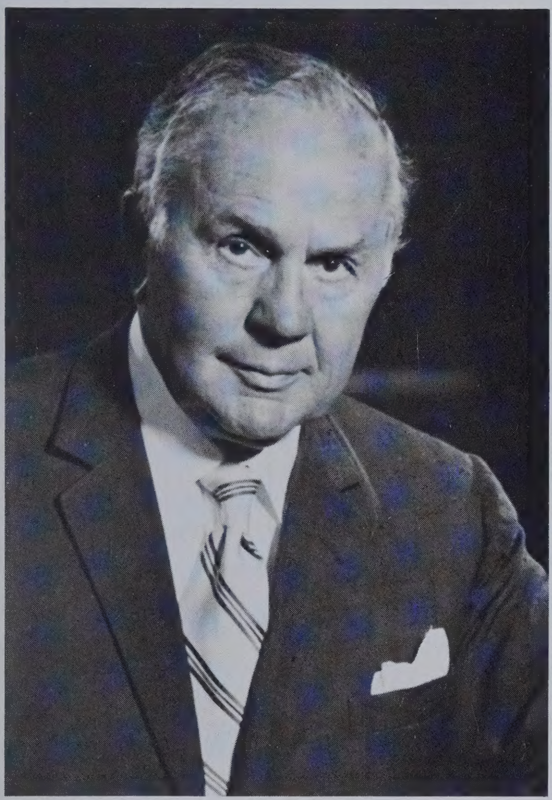

Mr. John A. McMahon, Chairman of the Board and Chief Executive Officer of the Company, and an original Founder and Director of the Company since 1952, died on November 30, 1972. Mr. McMahon, a former president of the Canadian Gas Association, was a man of great personal integrity, dedicated in his work, and through his enthusiasm and belief was an inspiration to all who were associated with him.

His personal knowledge of the problems of the Province of British Columbia, his imagination and his personal faith in the growth of the Province was a major asset in guiding the Company to its present position. The Company is now recognized, not only in British Columbia, but throughout Canada, as a major gas utility.

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INLAND
NATURAL GAS CO. LTD.

INTERIM REPORT

DECEMBER 31, 1972

INLAND NATURAL GAS CO

COMPARATIVE STATEMENT OF CONSOLIDATED INCOME

	Six Months Ended Dec. 31, 1972	Six Months Ended Dec. 31, 1971
Revenue		
Sale of gas	**$10,620,791**	$ 7,836,763
Transportation allowance	**140,530**	123,403
Subsidiary companies (net before income tax)	**142,069**	182,798
Other income	**192,256**	178,264
	11,095,646	8,321,228
Expenses		
Purchase of gas	**4,762,422**	3,508,404
Operating expenses	**1,555,982**	1,264,362
Depreciation and depletion, including subsidiaries	**755,955**	622,304
Interest and amortization on funded debt	**1,200,353**	1,007,130
Other interest	**151,848**	117,436
Interest charged to construction (credit)	**(28,338)**	(246,170)
	8,398,222	6,273,466
Income before income taxes	**2,697,424**	2,047,762
Provision for income taxes	**780,917**	327,111
Net income	**1,916,507**	1,720,651
Dividends declared on preference shares	**200,000**	200,000
	$ 1,716,507	$ 1,520,651
Common shares outstanding on December 31st	**2,822,122**	2,822,122
Earnings per common share (after provision for dividends on preference shares)	**$0.61**	$0.54
Sale of natural gas – Mcf	**15,580,745**	10,365,095

COMPARATIV

Source of Funds

Net income for

Add – Non-

Depreciat

Amortiza

issue c

Cash flow

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Funded debt iss

Other long-term

Application of Fu

Additions to pr

and equipme

Increase in non-

Sinking fund fo

Reduction in ot

Dividends on pr

common sha

Funded debt iss

Increase (decrease)

Working capital de

Working capital de

The above statements have been prepared from the books of acco

'D. *and wholly-owned subsidiary companies*

ATEMENT OF CONSOLIDATED SOURCE APPLICATION OF FUNDS

	Six Months Ended Dec. 31, 1972	Dec. 31, 1971
months	$ **1,916,507**	$ 1,720,651
arges to income d depletion	**755,955**	622,304
funded debt	**30,637**	31,661
operations	**2,703,099**	2,374,616
unded debt	**495**	75,164
	–	7,500,000
issued	–	225,000
	2,703,594	10,174,780
, plant	**3,632,605**	7,926,764
t assets	**33,122**	75,179
s and debentures	**85,500**	713,500
ng-term debt	**2,399**	–
ce and	**1,131,300**	1,046,637
ts	**50**	242,888
	4,884,976	10,004,968
rking capital	**(2,181,382)**	169,812
June 30	**3,599,996**	3,472,929
Dec. 31	$ **5,781,378**	$ 3,303,117

d are unaudited.

TO OUR SHAREHOLDERS

COMMON SHARE DIVIDENDS

We are pleased to inform you that by a resolution dated January 25, 1973, the Directors of your Company increased the quarterly dividend on common shares from 16½¢ to 18¢ per share. The common share dividend is payable February 15, 1973 to shareholders of record at the close of business February 2, 1973.

EARNINGS

Included in this report is a Statement of Consolidated Income for the six months ended December 31, 1972 with comparative figures for the six months ended December 31, 1971. Also set out is a Comparative Statement of Consolidated Source and Application of Funds for the period under review.

Earnings per common share, after providing for dividends on preference shares, are 61¢ for the six months ended December 31, 1972 compared to 54¢ for the comparable period a year ago.

The increased earnings are the result of substantial increases in gas sales revenues from all customer classifications. The addition of almost 5,000 residential and commercial customers since December 31, 1971, coupled with colder than normal weather has resulted in record revenues from this segment of consumers. A significant milestone was reached during the quarter under review when our 50,000th customer was connected. This customer will be honoured later this month at a ceremony in Kamloops. At the time of writing this report, customers connected to the system total almost 51,000.

Industrial revenues are also up sharply due to increased consumption at Cominco, Weyerhaeuser Canada Ltd. and Prince George Pulp and Paper Ltd., and the addition of two new customers, B.C. Forest Products Ltd. at Mackenzie and Cariboo Pulp and Paper Company at Quesnel. Total revenue from gas sales increased overall by $2,784,000 or 35%.

RATE REDUCTION

The increased natural gas sales and the resulting increase in earnings, allowed your Company to voluntarily implement a reduction in gas rates to residential customers. This rate decrease which will reduce residential rates, on the average, approximately 10% annually is reflected on all residential gas bills issued in January 1973.

CAPITAL PROGRAM

The additions to property, plant and equipment for the six months ending December 31, 1972 totalled $3,632,605. Approximately one-third of this is the cost of two compressor stations that have recently been commissioned at Kingsvale and Savona, B.C. Other capital expenditures include the installation of distribution mains and service lines and various system improvements. Service was extended to the communities of Dallas and Keremeos during this period, bringing the total number of communities served to 56.

APPOINTMENTS

The Board of Directors are pleased to announce the following appointments made at their meeting on December 6, 1972.

Mr. Ronald L. Cliff was appointed Chairman of the Board. Mr. Cliff is a Chartered Accountant and has been a Director of the Company since 1970. He is President of B.C. Transformer Co. Ltd. and a Director of several other companies.

Mr. Roderick M. Hungerford was appointed Senior Vice-President of the Company. Mr. Hungerford, a Director of the Company since 1966, has served as Vice-President for the past two years. He is President of Flex-Lox Industries Ltd.

Mr. H. Richard Whittall was appointed a Director of the Company. Mr. Whittall is a Partner in Richardson Securities of Canada and is a Director of several other companies.

RESIGNATION OF DIRECTOR

Mr. Norman R. Whittall, a Director of the Company since 1952, has resigned from your Company's Board of Directors. Mr. Whittall was one of the original founders of the Company and a past President and Chairman of the Board. Through the Company's association with him over these many years and with the benefit of his experience in the gas industry, we can look with confidence into the future. We take this opportunity to thank Mr. Whittall for his years of dedicated service to Inland.

For the Board of Directors

R. L. Cliff

Chairman of the Board

President and Chief
Operating Officer

Vancouver, B.C.
February 9, 1973.